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THE ONTARIO SECURITIES COMMISSION

REQUEST FOR COMMENTS

STATEMENT OF PRIORITIES
FOR
FISCAL 2000/2001

March 2000

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TABLE OF CONTENTS

INTRODUCTION 1

BUSINESS STRATEGY 1

STRATEGIC CONSIDERATIONS AND KEY CHALLENGES 2

OSC PRIORITIES 3

REPORT ON 1999/2000 ORGANIZATIONAL PRIORITIES 6

Introduction

The *Securities Act* requires the Ontario Securities Commission (OSC) to deliver to the Minister, and to publish in its Bulletin by June 30 of each year, a statement by the Chair setting out the proposed priorities for the Commission for its current financial year.

During 1999/2000, the benefits of the Commission's self funded status began to emerge. Additional staffing resources, made possible through increased operational flexibility, allowed the Commission to significantly increase its regulatory presence and effectiveness, and respond more effectively to the needs of its constituents. A summary of the performance of the Commission in meeting the goals and priorities identified in the 1999/2000 Statement of Priorities is appended to this document.

The Commission continues to work closely with its CSA colleagues and market participants to ensure that our regulatory system remains relevant to the changing market landscape. The 2000/2001 Statement of Priorities articulates the business strategy and priorities the Commission has set to accomplish this goal.

Business Strategy

The OSC will strive to maintain Ontario as an attractive place to invest by fostering a securities market where markets are efficient, open and fair, so that viable businesses can raise financing and investors can have confidence in market integrity. The OSC will work to balance the costs of regulatory intervention against the significance and benefits of regulatory objectives. The focus of the OSC will be to function as a relevant and constructive force in Ontario's capital markets through the enhancement of an efficient and effective regulatory environment. Towards this goal, the OSC strongly supports sound and responsible harmonization of policies and co-ordination of activities with other securities regulators.

Our Vision To be and to be seen to be a regulator that establishes standards and aggressively enforces clear and unambiguous rules to protect investors, while at the same time ensuring efficient capital markets for compliant users.

Our Mandate To protect investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets in Ontario and confidence in their integrity.

Our Approach To be efficient and proactive in carrying out our mandate... to encourage the highest standards of conduct for market participants... to be intelligently aggressive in enforcing the rules of the marketplace ... to be innovative in applying our regulatory powers to a rapidly changing marketplace.

Strategic Considerations and Key Challenges

The OSC recognizes the challenges in its operating environment that it must address to achieve its goals. These challenges are not unique to the OSC and take the form of changes to the business environment, capital markets, market participants and the regulatory framework.

Global Integration of Markets and Rapid Pace of Technological Change

Increasingly, the business environment is subject to global influences where firms are being serviced by integrated banking, insurance and securities conglomerates which operate across borders. Technology is driving market innovation and facilitating the creation of more sophisticated financial products, trading techniques and strategies. Competition from alternative trading systems is a catalyst for market restructuring.

Increased Dominance of the Secondary Market

Direct ownership of equities has increased dramatically in secondary markets. Explosive growth in use of the Internet has provided enhanced access and greater reliance on a wide range of information outside the framework of required securities regulatory filings (e.g. bulletin boards, whisper numbers etc.). The nature of the relationships between retail investors and intermediaries has also changed significantly. These trends present challenges to effectively maintain the integrity of the secondary market and to balance the range of investor needs for protection as well as their needs for clear and timely continuous disclosure of information.

Rapid Growth of Market for Investment Funds

Activity is at record levels in the investment fund sector. Investors are becoming more active in seeking information and education about their investments. Investment funds are becoming an increasingly prominent component of retirement plans. Continued growth and a proliferation of new products present challenges in regulating this important segment of our financial markets.

Redefinition of Roles of Regulators of Financial Services

Relaxation of restrictions on the types of financial products offered by various financial service providers has caused instances of regulatory overlap, gaps in regulatory coverage, and a need to harmonize regulation of like products. As a result, there is a need to redefine the mandates and activities of financial regulators.

Need For Public Confidence in the Integrity of the Market

Market participants and investors want regulators to provide clearer rules. Investors are demanding a greater sense of confidence in the integrity of the capital markets. As the emphasis shifts from trade execution to asset management and financial planning, regulators are being expected to establish standards which ensure the appropriate training and conduct of investment advisors and other registrants.

Need For Continued Expansion of OSC Expertise

The OSC is committed to providing high quality, user-friendly services and faster response times. Increasingly competitive labour markets present a challenge for the OSC to attract and build upon staff expertise in order to effectively address increasingly complex issues and meet the needs of our constituents.

OSC Priorities

The Commission will direct its resources towards achievement of the priorities set out below:

1. ***Redefine Approaches to the Financial Regulatory Framework***

The Commission will work to develop approaches to financial regulation which support market integration and innovations due to technological change and ensure the efficiency, fairness and integrity of capital markets including:

a) Leading initiatives to redefine the mandates and activities of all Canadian regulators of financial service providers and to harmonize regulation across Canada.
b) Completing reformulation of major OSC rules and policies.
c) Participating actively in the Five Year Legislative Review process.
d) Reviewing and assessing regulatory models governing the provision of financial advice.
e) Streamline and strengthen registration processes including the development of a National Registration Database.
f) Creating and implementing an appropriate regulatory framework to address issues related to exchange restructuring including recognition/exemption processes for restructured Canadian exchanges.

2. ***Strengthen the Compliance - Enforcement Continuum***

The Commission will continue to increase its presence and effectiveness through the following compliance monitoring and enforcement activities:

a) With CSA partners, strengthening protocols for SRO oversight through the development of oversight agreements and by-law protocols.
b) Performing more compliance examinations and inspections of dealers and advisors, including one national compliance review.

c) In conjunction with the CSA, completing the development of the Market Integrity Computer Analysis system (MICA).
d) Completing examinations of the TSE and the IDA (including CIPF, the Canadian Investor Protection Fund).
e) Working with policing authorities to establish a Securities Fraud Task Force.

3. *Strengthen Secondary Market Regulation and Enhance the Quality of Continuous Disclosure by Reporting Issuers*

The Commission will focus on completing the necessary legislative, regulatory and operational changes, including the development of an integrated disclosure system of regulation, to address the growing importance of continuous disclosure and technological changes in the secondary markets. Key strategies will include strengthening the framework of requirements for timely and reliable continuous disclosure of information by reporting issuers, actively pursuing aggressively inappropriate financial reporting practices, and addressing emerging issues either directly or through private sector standards setting bodies.

Key initiatives will include:

a) Implementing a comprehensive program for review of continuous disclosure documents by reporting issuers.
b) Considering the implications of growth in electronic communications and developing appropriate regulatory solutions including finalizing an Alternative Trading Systems (ATS) rule and implementing the data consolidator.
c) Placing increased emphasis on the review of financial statements to identify and address inappropriate application of accounting principles.
d) Finalize drafting of legislation related to statutory civil liability for continuous disclosure, reviewing comments from the CSA and other constituents, and revising as necessary.
e) Developing and implementing a national electronic insider trade reporting system and enhancing the program for the review of insider filings.

4. *Enhance Investor Protection Through Education*

Greater efforts will be made to enable investors to protect themselves better by providing improved access to information and placing more emphasis on investor education initiatives. The Commission will pursue this outcome through the following initiatives:

a) Increasing emphasis on investor education both directly and in partnership with other organizations.
b) Establishing an investor learning and education foundation.

5. ***Implement Fee Reduction Strategy***

The Commission will develop and implement a more streamlined fee structure which aligns our revenues more closely to our costs. The new fee approach will be developed through consultation with our CSA partners and key industry constituents.

6. ***Foster Development of an Improved Mutual Fund Governance Framework***

The Commission is committed to developing approaches to strengthen the governance of mutual funds and to making other changes necessary to improve the structure, management and distribution of mutual funds and the level of disclosure provided to investors. Key operational initiatives will include:

a) Developing approaches to strengthen mutual fund governance and the framework applicable to mutual fund managers.
b) Improving the point of sale and financial disclosure regime for mutual funds.
c) Working with insurance regulators and CSA partners towards the harmonization of the regulation of segregated funds and mutual funds.

7. ***Strengthen the Role of OSC as a Key Member of the International Securities Regulatory Community.***

The Commission plans to continue to participate proactively in the international regulatory community. Through these efforts the Commission will contribute to the harmonization of international regulation and potentially reduce the regulatory burden on Canadian companies doing business internationally. Key initiatives will include:

a) Actively participating in the development of high quality, internationally accepted accounting and auditing standards.
b) Participating at a senior level on key initiatives of the International Organization of Securities Commissions (IOSCO) and other international bodies.

8. ***Continue to Develop and Implement Accountability Mechanisms***

The Commission recognizes the need to develop and implement appropriate accountability mechanisms to ensure that the OSC continues to effectively and efficiently meet the needs of its constituents. The Commission will strengthen its accountability through the following:

a) Ensuring clear, proactive communication between OSC and stakeholders.
b) Completing a survey of key constituents to obtain feedback on the OSC's performance and identify opportunities for improvement.

9. ***Foster the Continued Development of the OSC as an "Employer of Choice".***

The Commission will strive to provide a dynamic and stimulating environment in order to attract, retain and motivate employees who are capable of and committed to achieving our business goals in a performance based culture.

As part of the Commission's comprehensive planning process, each operational area develops detailed operating plans for the upcoming fiscal year. Operational priorities for 2000/2001 for each area have been established which will support achievement of the initiatives set out above as well as delivery of our ongoing regulatory services in a business like manner.

Report on 1999/2000 Organizational Priorities

The Commission achieved significant progress against the priorities identified in the 1999/2000 Statement of Priorities. Performance towards achievement of the identified initiatives is outlined below.

Provide leadership in readying the capital markets for Y2K: support industry testing and contingency plan development; perform follow up reviews of registrant and issuer disclosure programs.

Commission staff worked closely with industry participants to ensure necessary preparations were successfully carried out prior to the transition period. Preparations included assessment of industry infrastructure, oversight of industry testing and the development of market monitoring and contingency plans. Specialized review procedures were developed for IDA firms. Staff completed a Y2K issuer disclosure program as well as selective registrant monitoring.

Significantly increase resources in Capital Markets, Corporate Finance and Enforcement to provide additional focus on monitoring of compliance with disclosure requirements by market participants and increased emphasis on case assessment, investigations and enforcement.

Significant staffing increases occurred in Capital Markets 40%, Corporate Finance 40% and Enforcement 36%;. Fifteen routine compliance reviews of mutual fund dealers, fifteen reviews of advisors, and eight reviews for cause were completed. The National Compliance Review was postponed to 2000/2001 due to Y2K issues. Compliance audits of the IDA and CIPF were completed. A report outlining the findings of an audit of the TSE will be presented in April 2000.

The efficiency and effectiveness of enforcement activities has been improved through implementation of an improved case assessment system and standardization and documentation of enforcement policies and procedures. Case assessment turnaround times have decreased substantially.

New teams were established in Corporate Finance to provide additional focus on review and assessment of continuous disclosure documents and for regulating takeover bids, mergers and acquisitions. The continuous disclosure team completed a Y2K disclosure review, commenced earnings management reviews and opened more than sixty continuous disclosure files during the year. Turnaround times on prospectuses and applications improved significantly. Three matters were taken for hearings during the year.

Lead initiatives to redefine the mandates and activities of all Canadian regulators of financial service providers.

Legislation was brought into closer alignment with other provinces through the passage of amendments to the *Securities Act*, the *Commodities Futures Act* and the *Toronto Stock Exchange Act*.

Significant progress was achieved towards harmonization of the Canadian securities regulatory system including finalization of the Mutual Reliance Review Systems Memorandum of Understanding and Prospectus and Applications policies. Preliminary receipting and final prospectus checklists were harmonized and a proposed CSA Regulatory Framework Summary was published for comment.

A survey on the regulation of Mutual Funds and Segregated Funds was completed and recommendations on harmonization of regulation of the two products were published for comment.

A proposal for streamlining registration categories was completed. Business requirements were established for a National Registration Database. A Request for Proposal for development of the database system has been issued. Implementation of the system is targeted for December 2001.

In conjunction with CSA partners, address issues arising from the proposed restructuring of Canadian exchanges.

Criteria for recognition/withdrawal of recognition were published in December 1999 and an order is expected to be signed in April 2000.

Provide an effective regulatory regime for existing, alternative, and emerging trading systems including the Internet.

A proposed rule for the regulation of alternative trading systems was developed and published for comment. Revisions have been made and the proposed rule will be republished for comment by May 2000. A Request for Proposal for an ATS Data Consolidator has been completed and will be released by May 2000.

Complete fee review with CSA partners and begin to implement restructured fees to bring revenues and costs into closer alignment.

An initial 10% fee decrease was implemented in August. A preliminary revenue model was developed and provided to CSA and industry representatives for comment. Input has been incorporated into a revised revenue model. A proposed rule is expected to be published for comment in spring 2000.

Support the establishment and recognition of the Mutual Funds Dealers Association and seek regulatory options to improve the governance of mutual funds.

The proposed business plan and by-laws for the Mutual Fund Dealers Association (MFDA) have been reviewed by OSC and CSA staff and comments have been provided to the MFDA. Recognition criteria have been developed and an application for recognition has been received from the MFDA. Recommendations related to improved fund governance were completed for review by the Commission

Participate actively in international organizations (e.g. IOSCO) to represent Ontario during the development of regulatory standards and approaches related to international capital markets.

Commission representatives played key roles in several IOSCO initiatives including the development of international accounting standards for cross border offerings, leading the Task Force on hedge funds and highly leveraged institutions and development of a paper on standards for market oversight.

Propose reforms of prospectus and continuous disclosure requirements for mutual funds.

Internal criteria were developed for mutual fund prospectus screening and staff training was completed. To enhance compliance, a proactive plan for implementation of NI 81- 101 & 102 was developed which includes broad industry education and CSA training on the new requirements.

Develop proficiency standards for financial planning and rules for implementation.

A proposed proficiency rule was developed and published for comment (Dec. 1999). In conjunction with industry participants and other regulators, a blueprint for an examination for financial planners was completed (including the development of proposed questions).

Assist the Minister in establishing an advisory committee for five year legislative review and provide input to the review process.

A Commission staff member is involved as an appointee on the advisory committee established by the Minister. An issues list is being developed and is expected to be released for comment in Spring 2000.

With the Canadian Securities Administrators, develop an integrated disclosure system proposal to achieve a more flexible offering process and improved standards for continuous disclosure for presentation to CSA and publication for comment.

In conjunction with the CSA, a concept paper on Integrated Disclosure was developed and published for comment in January 2000.

Complete the reformulation of the OSC's deemed rules into formal rules and policies.

Substantial progress was achieved toward the reformulation of both local and national rules and policies. Eight rules or policies came into force, including the Mutual Reliance Review System for Prospectus and Initial AIF's, Mutual Funds, Mutual Fund Prospectus Disclosure and the Early Warning System rules, all of which were developed in conjunction with the CSA and implemented on a national basis, and Ontario's reformulated rule governing take-over bid transactions. An additional 11 instruments were published and/or republished for comment, including the proposed national instrument on mining standards and local rules on general prospectus requirements and over-the-counter derivatives.

Revise and publish a proposal regarding statutory civil liability for continuous disclosure.

Current Canadian and US case law and comments from industry participants have been assessed and an amended proposal is being developed.

Develop a streamlined regulatory regime for private placements to enhance capital markets access for small and medium sized enterprises.

A concept paper outlining proposals to revamp the private placement regime was published for comment. Industry input has been received and a rule is being drafted for comment.